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IN THE MATTER OF THE GENERIC
PROCEEDING CONCERNING ELECTRIC
RESTRUCTURING ISSUES

DOCKET NO. E-00000A-02-0051

IN THE MATTER OF ARIZONA PUBLIC
SERVICE COMPANY'S REQUEST FOR
VARIANCE OF CERTAIN REQUIREMENTS
OF A.A.C. R14-2-1606

DOCKET NO. E-01345A-01-0822

IN THE MATTER OF THE GENERIC
PROCEEDING CONCERNING THE ARIZONA
INDEPENDENT SCHEDULING
ADMINISTRATOR

DOCKET NO. E-00000A-01-0630

IN THE MATTER OF TUCSON ELECTRIC
POWER COMPANY'S APPLICATION FOR A
VARIANCE OF CERTAIN ELECTRIC
COMPETITION RULES COMPLIANCE
DATES

DOCKET NO. E-01933A-02-0069

Arizona Corporation Commission
DOCKETED

NOV 12 2002

IN THE MATTER OF THE APPLICATION OF
TUCSON ELECTRIC POWER COMPANY FOR
APPROVAL OF ITS STRANDED COST
RECOVERY

DOCKET NO. E-01933A-02-0069

DOCKETED BY

CAK

NOTICE OF FILING DIRECT TESTIMONY OF

CURTIS L. KEBLER

ON BEHALF OF RELIANT RESOURCES, INC.

1 Reliant Resources, Inc., by and through its attorneys, hereby files the
2 Direct Testimony of Curtis L. Kebler, Director, Asset Commercialization, West
3 Region.

4 RESPECTFULLY submitted this 12th day of November, 2002.

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7
8 By 

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2 12th day of November, 2002 with:

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IN THE MATTER OF THE GENERIC) DOCKET NO. E-00000A-02-0051
PROCEEDING CONCERNING ELECTRIC)
RESTRUCTURING ISSUES)

IN THE MATTER OF THE GENERIC) DOCKET NO. E-000000A-01-0630
PROCEEDING CONCERNING THE ARIZONA)
INDEPENDENT SCHEDULING)
ADMINISTRATOR)

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-01933A-98-0471
TUCSON ELECTRIC POWER COMPANY FOR)
APPROVAL OF ITS STRANDED COST)
RECOVERY)

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TO DIRECT TESTIMONY OF CURTIS L. KEBLER

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1 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
2 OCCUPATION.

3 A. My name is Curtis L. Kebler. My business address is 8996 Etiwanda Avenue,
4 Rancho Cucamonga, California 91739-9662. I am Director, Asset
5 Commercialization, West Region for Reliant Resources, Inc. ("Reliant").
6

7 Q. PLEASE DESCRIBE YOUR PROFESSIONAL QUALIFICATIONS AND
8 EXPERIENCE.

9 A. A summary of my professional qualifications and experience is included in the
10 Statement of Qualifications attached as Appendix A to my testimony.
11

12 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA
13 CORPORATION COMMISSION?

14 A. I offered testimony on behalf of Reliant Resources, Inc. in the Arizona Public
15 Service Company ("APS") Request for Variance matter and in the Track A
16 matter, both of which are a part of this consolidated Docket.
17

18 **I. SUMMARY OF TESTIMONY**

19 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN TRACK B?

20 A. First, Reliant thanks Staff and all the parties to Track B for their efforts and
21 participation in the various workshops conducted to establish a competitive
22 solicitation process for the initial solicitation to be conducted in March of
23 2003. Staff is to be commended for the *Staff Report on Track B: Competitive*
24 *Solicitation* issued October 25, 2002 ("Staff Report"). My testimony focuses
25 on areas where Reliant believes the general competitive solicitation process
26 outlined in the Staff Report and the specific processes outlined by Arizona

1 Public Service Company ("APS") and Tucson Electric Power Company
2 ("TEP") should be modified for the initial competitive solicitation to be
3 conducted next year.

4 In particular, I will discuss:

- 5 1. Why it is inappropriate for both APS and TEP to rely exclusively on
6 a Request For Proposal ("RFP") process, without use of an auction
7 process during the initial solicitation;
8
- 9 2. Why prompt Commission prudence evaluation of awarded contracts
10 is important to provide the level of regulatory certainty needed to
11 allow the competitive solicitation process to minimize costs and
12 maximize economic efficiency;
- 13 3. Why the "price to beat" concept is unnecessary where the utility
14 adequately defines the product to be solicited and is unworkable
15 where the product is not defined;
- 16 4. Why the Affiliated Code of Conduct needs some additional
17 clarification; and
- 18 5. Why the utility's dispatch methodology, the structure and proposed
19 treatment of ancillary services in the solicitation process, and the
20 treatment of Reliability Must Run (RMR) all raise additional
21 concerns

22 I have also included an edited redline version of that portion of the Staff Report
23 dealing with the description of the Texas competitive electricity market (page
24 49) to correct certain factual misstatements. Finally, Reliant agrees with the
25 Staff Report's assessment that it is not necessary to discuss or resolve Least
26

1 Cost Planning, Demand Side Management and Environmental Risk Mitigation
2 in this proceeding.

3
4 **II. A SIGNIFICANT PORTION OF THE UNMET NEEDS SHOULD**
5 **BE ACQUIRED THROUGH AUCTION**

6 Q. THE DIRECT TESTIMONY OF BOTH APS AND TEP INDICATE THAT
7 THEY INTEND TO INITIALLY RELY EXCLUSIVELY ON RFPS TO
8 SOLICIT BIDS. DOES RELIANT SUPPORT THE USE OF RFPS AS THE
9 EXCLUSIVE INITIAL SOLICITATION PROCEDURE?

10 A. No. While Reliant recognizes the RFP solicitation process is an appropriate
11 method for securing a portion of the unmet needs of APS and TEP, Reliant
12 supports the use of an auction process to secure a significant portion (at least a
13 third) of those unmet needs in the initial solicitation, as well as for economy
14 and short-term energy purchases. Reliant believes an auction process achieves
15 Staff's goal of a transparent process that results in cost savings for ratepayers.¹
16 An auction process can be readily developed that is equitable and auditable, yet
17 flexible and is easily understood by all participants.² Auctions are particularly
18 well suited for soliciting products that are easily standardized or are already
19 part of a liquid wholesale market. The types of products described by both
20 APS and TEP, such as the 25 MW blocks of capacity and capacity with
21 minimum energy purchases during specific time periods, the call options, and
22 the economy and short-term energy purchases as described by Mr. Carlson on
23 behalf of APS, are the types of products that can be readily standardized.
24

25 ¹ Staff Report at p. 1, l. 4.

26 ² Criteria established by Staff for an acceptable competitive solicitation process in the Staff Report
at p. 1, ll. 8-14.

1 Q. PLEASE FURTHER EXPLAIN WHY AN AUCTION SHOULD BE
2 UTILIZED FOR A SIGNIFICANT PORTION OF THE COMPETITIVE
3 SOLICITATION.

4 A. First, a properly devised auction will accomplish the goals I mentioned above
5 and discussed at pages 1 and 3 of the Staff Report, including the facilitation of
6 an open, transparent, and fair solicitation. Second, suppliers will typically
7 compete on price. All other facets of the product will be determined by a
8 standard contract. This will provide the Commission and Staff greater ease in
9 determining the prudence and reasonableness of the contracts. In turn,
10 Arizona's consumers can be assured that the prices are efficient and the lowest
11 available for those products. Finally, the auction provides Staff an indicator of
12 what actual market prices exist at the time of the solicitation. This is possible
13 because the suppliers are only competing on one variable. By way of contrast,
14 a less-standard RFP product can result in many subjective and deal-specific
15 criteria that may make it difficult to compare options. With an auction, all of
16 that subjective measurement is standardized and consolidated with only price
17 changing among and between the various participants. This transparency
18 should further ease the Commission's prudence review of the competitive
19 solicitation products and provide the Commission and Staff a potential
20 benchmark for determining the prudence of non-standard solicitation products.
21 Finally, it is important that the auction process be utilized in this initial
22 solicitation to allow the Commission to examine the pros and cons of the
23 auction process against the RFP process.
24
25
26

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1 Q. DID APS PROPOSE USING AN AUCTION PROCESS IN THEIR
2 NOVEMBER 4, 2002 FILING IN THIS DOCKET?

3 A. No, but APS witness Thomas Carlson did suggest an auction process similar to
4 the proposal APS made in their July 1, 2002 filing was actively being
5 considered for a solicitation in 2004.

6
7 Q. COULD APS UTILIZE AN AUCTION PROCESS FOR THEIR FIRST
8 SOLICITATION?

9 A. Reliant believes APS could very easily use an auction process for a significant
10 portion of their initial solicitation. This is particularly evident when one
11 considers the standard nature of the products for which APS is proposing to
12 solicit contracts. Each of these products—capacity, capacity plus energy, and
13 physical call options—are very good candidates for a standard auction process.
14 As both the Commission and Staff have mentioned in previous hearings and
15 workshops, there is a surplus of wholesale generation available in Arizona's
16 market today. An open, transparent, and fair solicitation promotes the
17 utilization of this surplus wholesale generation for the benefit of Arizona's
18 consumers. By allowing firms to compete head-to-head as suppliers of these
19 products, the Commission can rest assured that the results will represent the
20 best possible price for consumers.
21

22 Q. APS CLAIMS THERE IS INSUFFICIENT TIME TO INSTITUTE AN
23 AUCTION PROCESS FOR THIS FIRST SOLICITATION. DO YOU
24 AGREE?

25 A. No. APS' testimony stated that the short time frame for the solicitation does
26 not allow for the development of the appropriate software and controls for an

1 automated auction. However, there are alternatives available that can
2 accomplish the same results. As an example, a manual process with sealed
3 bids submitted and posted in an open meeting can be immediately used. Other
4 auction styles are available that can result in very similar outcomes. An open
5 auction has an advantage over the RFP process since there is no additional
6 negotiation. For example, in a RFP process with unit-backed capacity many
7 substantive contract terms beyond price still must be negotiated after the initial
8 selection. These include scheduling rights, maintenance schedules, availability
9 guarantees, heat rate guarantees, and capacity guarantees, just to name a few.
10 Not only can it take weeks or even months to resolve these issues, the ultimate
11 resolution can change the cost and value of the product to Arizona's
12 consumers. An auction process avoids these difficulties by standardizing a
13 portion of the requirements up front, just as APS has suggested doing on a
14 short-term basis, and thereby ensures Arizona's consumers receive the truly
15 competitively priced product.
16

17
18 Q. WOULD AN OPEN, TRANSPARENT, AND FAIR AUCTION BE
19 APPROPRIATE FOR APS' PROPOSED ECONOMY AND SHORT-TERM
20 ENERGY PURCHASES?

21 A. Yes. The development of a simple but transparent auction for APS' proposed
22 economy and short-term energy purchases has several benefits. First, an open
23 and transparent process ensures that competition determines an efficient price
24 for the product solicited. Secondly, the efficient pricing outcome should assist
25 both the Commission and APS in any prudency review of the proposed
26 economy energy purchases. APS would have the assurance that it was

1 procuring the most efficient price available from the market. Finally, an open,
2 transparent, and fair auction for economy and short-term energy purchases will
3 mitigate concerns regarding the dispatch of utility affiliate generating assets
4 over other regional suppliers that I discuss later in my testimony.

5
6 Q. PLEASE DESCRIBE A METHOD BY WHICH APS MIGHT USE AN
7 AUCTION FOR ECONOMY AND SHORT-TERM ENERGY PURCHASES?

8 A. A relatively simple method would utilize a "bid stack" for the supply of day-
9 ahead, month-ahead, or 45-day-ahead economy energy purchases. The utility
10 could utilize a standard contract for the product it wishes to procure through
11 economy energy. The utility would then accept sealed or electronic bids. Bids
12 received would be reviewed by utility staff members certified as not having
13 contact with persons involved in the bid development of the utility affiliate,
14 except for the submission of the bid. The use of a standard contract allows
15 suppliers to bid only just one variable: price. Thus, the bids are stacked and
16 ranked by price, with the lowest bids selected, in merit order, to supply the
17 economy energy needs of the utility.

18
19 Q. WOULD THE INDEPENDENT MONITOR NEED TO BE INVOLVED IN
20 EVERY TRANSACTION WHERE APS PROCURES ECONOMY OR
21 SHORT-TERM ENERGY?

22 A. Not necessarily. Once an open, transparent, and fair auction process is in
23 place, where only price determines the winner, any improper behavior should
24 be readily identifiable. Therefore, the Independent Monitor's function can be
25 limited to periodic review.
26

1 Q. DID TEP PROPOSE AN AUCTION PROCESS IN THEIR NOVEMBER 4,
2 2002 FILING IN THIS DOCKET?

3 A. No. According to the testimony of David Hutchens, TEP will use a RFP to
4 procure fixed price firm on-peak energy, fixed price firm super-peak energy,
5 index-priced unit contingent capacity and energy, and non-spin ancillary
6 service capacity. For the same reasons discussed above, TEP could utilize an
7 auction process for their first solicitation.
8

9 Q. ARE YOU SUGGESTING THAT APS AND TEP RELY SOLELY ON AN
10 AUCTION PROCESS TO PROCURE THEIR UNMET NEEDS?

11 A. Not necessarily. A significant portion of the utilities' unmet needs should be
12 obtained through an auction process. To the extent that the utilities in Arizona
13 need products that are easily standardized or are already part of a liquid
14 wholesale generation market, an auction is a reasonable method of obtaining
15 the product through robust competition. If the utility is in need of a specialized
16 product, especially one that cannot be standardized, then it is appropriate to
17 look to other methods of procurement, such as a RFP. Ultimately, the
18 Commission should expect that a balanced utility portfolio will reflect multiple
19 product types procured through the most appropriate means for those products.
20

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1 **III. THE COMMISSION SHOULD PROVIDE PROMPT PRUDENCY**
2 **REVIEW**

3 Q. UNDER STAFF'S PROPOSAL, DOES THE COMMISSION HAVE A ROLE
4 IN THE APPROVAL OF THE CONTRACTS SIGNED AS A RESULT OF
5 THE COMPETITIVE SOLICITATION?

6 A. Yes. However, under Staff's proposal the timing of the Commission's review,
7 both as to the manner in which the solicitations were conducted and the
8 appropriateness of the power supplies purchased, is totally discretionary.³ The
9 undetermined timeline in the prudency review creates significant and
10 unnecessary risk for the utility, the suppliers, and Arizona's consumers.

11
12 Q. DESCRIBE THE UNCERTAINTY CREATED BY THE UNDETERMINED
13 TIMELINE FOR PRUDENCY REVIEW.

14 A. Without a definitive schedule for determining the prudence of the wholesale
15 suppliers' contracts: 1) utilities will not know whether they can recover the
16 costs of the suppliers' contract; 2) utilities are likely to include "regulatory out"
17 clauses in their competitive solicitation contracts; taking away the parties'
18 certainty regarding the contract, including the term thereof; and 3) ultimately,
19 these uncertainties are translated into higher solicitation prices borne by
20 Arizona's utilities and greater risks for Arizona's consumers. Suppliers' bids
21 are impacted when the review and approval of contracts is lengthy. Providing
22 the parties involved in the competitive solicitation with certainty of the
23

24
25 ³ Report at p. 4, l. 26 through p. 5, l. 2. Staff does suggest that the Commission should "review the
26 contracts entered into as a result of the solicitation at such time as the utility seeks to recover the
 associated costs from customers". Staff Report at p. 36, ll. 20-22. As discussed in my testimony,
 such a delay in obtaining Commission prudency review increases costs and is unnecessary.

1 outcome in a timely manner will assure the most efficient outcome and the best
2 possible prices for Arizona's consumers.

3
4 Q. HOW CAN THIS UNCERTAINTY BE MITIGATED?

5 A. The Commission and Staff can mitigate the uncertainty by determining the
6 prudence of any competitive solicitation product within a time frame
7 dependent on the solicitation method being used by the utility. Where the
8 Independent Monitor finds an auction process is transparent and fairly
9 conducted, Staff's certification of the results as reasonable and prudent and the
10 Commission acceptance or rejection of Staff's certification should be
11 completed within five (5) business days. Where the Independent Monitor
12 makes the same findings for any Request for Proposal ("RFP") process, Staff's
13 certification of the result as reasonable and prudent and the Commission
14 acceptance or rejection of Staff's certification should be completed within
15 thirty (30) days, recognizing the potential for non-standard contracts in a RFP
16 solicitation.

17
18 Q. DOES THE PARTICIPATION OF AN INDEPENDENT MONITOR
19 PROVIDE ADDITIONAL CERTAINTY TO AN OPEN, TRANSPARENT,
20 AND FAIR OUTCOME?

21 A. Yes. The participation of the Independent Monitor and its role as described in
22 the Staff Report enhances the Commission's ability to determine the prudence
23 of the competitive solicitation contracts in a timely manner. Staff has done a
24 commendable job in augmenting the role of the Independent Monitor to ensure
25 an open, transparent, and fair outcome. Certainty in the outcome is further
26 provided by the Independent Monitor's ability to petition the Commission for

1 suspension or termination of a solicitation, which it deems to be flawed and the
2 Commission's ability to order such changes as it deems necessary to promote
3 effectiveness, reasonableness and fairness⁴ at any point in the solicitation
4 process.

5
6 **IV. THE "PRICE TO BEAT" IS UNNECESSARY FOR**
7 **STANDARDIZED PRODUCTS (THE SUBJECT OF MOST**
8 **AUCTIONS) AND PROBABLY UNWORKABLE FOR NON-**
9 **STANDARDIZED PRODUCTS (USUALLY SECURED**
10 **THROUGH RFPS)**

11 Q. WHAT IS THE PURPOSE OF THE "PRICE TO BEAT" ACCORDING TO
12 THE STAFF REPORT?

13 A. Staff developed the price to beat concept "to provide certainty of Staff support
14 for cost recovery as an alternative to an expedited review process."⁵

15 Q. SHOULD THE "PRICE TO BEAT" AS PROPOSED IN THE STAFF
16 REPORT PROVIDE ANY CAUSE FOR CONCERN?

17 A. Yes. As proposed, the price to beat could artificially cap the market price
18 based upon forecasts regardless of whether they reflect actual market
19 conditions or the characteristics inherent in the products available through
20 competitive solicitation. The use of a price to beat creates a time lag for any
21 potential change in the market from the time of the price forecast to the time of
22 the ultimate procurement. These changes could significantly alter the outcome

23
24 ⁴ Staff Report at p. 12, ll. 5-9. As a result, the Staff's Report provision for post-solicitation
25 remedies after notice and hearing, such as disallowing the recovery of cost of power incurred
26 pursuant to contracts entered as a result of an inequitable solicitation (Staff Report at p. 12, ll. 10-
16) is unnecessary.

⁵ Staff Report at p. 35, ll. 22-27.

1 of the solicitation compared to Staff's expectations. These changes could, in
2 the eyes of Staff, create an "unsuccessful" solicitation despite the fact that the
3 outcome is representative of current market conditions.

4
5 Q. WHAT OTHER DIFFICULTIES DOES THE USE OF A "PRICE TO BEAT"
6 CREATE?

7 A. Determining the price to beat is administratively difficult. The Staff Report
8 states that Staff and Independent Monitor will establish a price to beat for
9 "each product solicited for each utility."⁶ Based upon the proposals of APS
10 and TEP, this will mean the determination of at least 6 different prices to beat;
11 this number can be further multiplied by however many different term lengths
12 are included in the procurements. The task of determining multiple prices to
13 beat is not only onerous, but is further complicated by the difficulty in
14 comparing the price to beat for the procurement of any non-standard product.
15 There is no clear method of comparing a non-standard product to a price
16 forecast.

17
18 Q. CAN EFFICIENT PRICES BE PROVIDED TO CONSUMERS WITHOUT A
19 "PRICE TO BEAT"?

20 A. Yes. By focusing on a transparent solicitation process, whether an auction for
21 standard products or properly designed RFPs for non-standard products, the
22 Commission and Staff can be assured that the solicitation outcome itself
23 represents an efficient price under current market conditions and should
24 provide the lowest price to Arizona's consumers for the products solicited.
25
26

⁶ Staff Report at p. 24, ll. 27-28.

1
2 Q. ARE THERE OTHER REASONS STAFF SHOULD FEEL COMFORTABLE
3 WITH THE OUTCOME OF A COMPETITIVE SOLICITATION WITHOUT
4 USING A "PRICE TO BEAT"?

5 A. Yes. As I mentioned previously, the Independent Monitor plays a significant
6 role throughout the procurement process to ensure that whatever solicitation
7 process is implemented creates an open, transparent, and fair solicitation to
8 supply the utilities' unmet needs. Certainty provided by the Independent
9 Monitor's participation, combined with the Commission's prompt prudence
10 review, renders a price to beat unnecessary.
11

12 V. AN AFFILIATE CODE OF CONDUCT NEEDS TO PROTECT
13 AGAINST AFFILIATE CONTACT THROUGHOUT THE
14 SOLICITATION DEVELOPMENT PROCESS AND IN SHORT-
TERM ENERGY TRANSACTIONS

15 Q. DOES RELIANT BELIEVE AN AFFILIATE CODE OF CONDUCT IS
16 NECESSARY FOR THE COMPETITIVE SOLICITATION?

17 A. Yes. To the extent an affiliate of any Arizona utility wants to participate in the
18 utility's competitive solicitation, including economy and short-term energy
19 transactions, clearly defined firewalls should be in place to protect the
20 competitive process. As I have mentioned previously, a transparent and fair
21 process that leads to an efficient market outcome is in the best interest of
22 Arizona's consumers.
23

24 ///

25 ///

26 ///

1 Q. DOES RELIANT HAVE ANY SUGGESTIONS TO STRENGTHEN THE
2 CODE OF CONDUCT AS CURRENTLY PROPOSED?

3 A. Yes. The Staff Report provides a workable template for a Code of Conduct in
4 the competitive solicitation. Reliant suggests that additional consideration be
5 given to the exposure and role of utility employees who work on its
6 procurement. The deadline of January 1, 2003 for the utility to establish its
7 "procurement team" suggested in the Staff Report ignores the substantial work
8 that is already being performed by the utilities employees in preparation of the
9 solicitation. Reliant submits that the Code of Conduct must require the utility
10 demonstrate that those who worked on the procurement, including its
11 development, execution, and review, did not have any improper contact with
12 any utility affiliate that is participating in the competitive solicitation.
13 Members of the procurement team should be required to attest that they have
14 no knowledge of the products or offers of any affiliate participating in the
15 competitive solicitation. This will provide greater assurance to all participants
16 that no party has an unfair advantage throughout the solicitation. As discussed
17 later, Reliant is also concerned that short term energy purchases could be
18 conducted to favor an affiliate. The Code of Conduct must insure that the bid
19 stack, dispatch and procurement decisions are made on a non-discriminatory
20 basis and that the affiliate's employees are not provided access to information
21 or decision makers that would provide the affiliate an unfair competitive
22 advantage to the affiliate.
23
24

25 ///

26 ///

1 **VI. OTHER TROUBLESOME ASPECTS OF APS' PROPOSAL**

2 Q. YOU PREVIOUSLY DISCUSSED THE LACK OF AN AUCTION PROCESS
3 IN APS' SOLICITATION PROPOSAL. ARE THERE OTHER ASPECTS OF
4 APS' PROPOSAL THAT CONCERN YOU?

5 A. Yes. The utility's dispatch methodology, the structure and proposed treatment
6 of ancillary services in the solicitation process, and the treatment of Reliability
7 Must Run (RMR) all raise additional concerns.
8

9 Q. DESCRIBE YOUR CONCERN REGARDING APS' DISPATCH
10 METHODOLOGY.

11 A. APS' reliance on economy and short-term energy purchases brings into
12 question how it plans to dispatch the assets under its control and those
13 available to APS from the market. It is in the best interest of Arizona's
14 consumers that the dispatch of energy be done on a non-discriminatory
15 economic basis. APS has not specified whether APS or one of its affiliates will
16 be making the dispatch decisions in APS' control area. Reliant submits that the
17 Commission should ensure that until a Regional Transmission Organization
18 ("RTO") is in place, an affiliate of APS is not the control area operator and that
19 all dispatched units be treated in a non-discriminatory manner.
20

21 Q. DESCRIBE YOUR CONCERN REGARDING THE LACK OF AN
22 ANCILLARY SERVICES MARKET IN APS' PROPOSAL.

23 A. The Staff Report states "bidders will provide all ancillary services required to
24 support their bids."⁷ APS' proposal does not mention this provision or how it
25

26

⁷ Staff Report at p. 16, l. 8.

1 plans to address it. Arizona's current market structure does not provide for a
2 competitive ancillary services market. Furthermore, many standard products
3 do not include ancillary services in addition to the standard product.
4 Ultimately, ancillary services would need to become an unbundled control area
5 product to create a market for these services. Otherwise, the suppliers in the
6 region must rely on the control area operator for ancillary services. While
7 Reliant strongly supports the development of a competitive ancillary services
8 market, it is premature for Staff to expect suppliers to provide "all ancillary
9 services required to support their bid" when no market for such services
10 currently exists.
11

12 Q. DESCRIBE YOUR CONCERNS REGARDING THE TREATMENT OF
13 RMR UNITS AND FORECASTS.

14 A. Reliant has two concerns regarding the status of RMR in this proceeding.
15 First, based upon the testimony of Peter Ewen, APS will not be able to provide
16 a determination of RMR hours until well after a decision in the Track B
17 process is rendered. This means that the actual amount of capacity and energy
18 available for procurement will not be known until after the Commission has
19 made a decision in this proceeding. To resolve this uncertainty, APS should be
20 required to provide an estimate of its RMR hours in this proceeding and be
21 required to justify any changes it later proposes for the actual solicitation.
22

23 Q. WHAT IS YOUR SECOND CONCERN REGARDING THE TREATMENT
24 OF RMR IN APS' PROPOSAL?

25 A. The testimony of Thomas Carlson states that capacity or energy for RMR not
26 supplied by APS could be solicited separately from the original unmet needs

1 solicitation. It may be less expensive for a unit that is already supplying
2 capacity and energy to provide the RMR services as long as they meet all the
3 technical requirements. By removing this element from the standardized
4 solicitation proposal, APS is ignoring an option to provide less expensive
5 services from a competitive supplier for the benefit of Arizona's consumers.
6

7 **VII. DETERMINATION OF UNMET NEEDS**

8 Q. DOES RELIANT HAVE A POSITION REGARDING THE AMOUNT OF
9 UNMET NEEDS INCLUDED IN THE UTILITIES' INITIAL COMPETITIVE
10 WHOLESALE GENERATION SOLICITATION?

11 A. Reliant has not, at this time, undertaken an independent analysis of the level of
12 unmet needs quantified by APS and TEP in their November 4, 2002 filings, in
13 this Track B proceeding. It is Reliant's understanding that the direct testimony
14 of other parties to this proceeding will address the amount of unmet needs
15 included in the utilities' initial competitive wholesale generation solicitations.
16 Reliant reserves its right to comment on the utilities amount of unmet needs
17 subject to competitive wholesale generation solicitation after reviewing the
18 parties' testimony submitted on November 12, 2002.
19

20 **VIII. TECHNICAL CORRECTIONS TO THE STAFF REPORT'S**
21 **DESCRIPTION OF THE TEXAS RESTRUCTURING PROCESS**

22 Q. DO YOU PROPOSE ANY TECHNICAL CHANGES TO THE STAFF
23 REPORT?

24 A. Yes. Appendix B contains an edited redline version of that portion of the Staff
25 Report dealing with the description of the Texas restructuring process.
26

Appendix B clarifies and corrects certain factual information about that process.

IX. CONCLUSION

Q. PLEASE SUMMARIZE RELIANT'S CONCLUSIONS AND RECOMMENDATIONS FOR THE INITIAL COMPETITIVE SOLICITATION.

A. Reliant believes the utilities should utilize an open and transparent process to ensure a fair solicitation that results in a balanced portfolio served by efficient market-based results. The Commission should urge the utilities to use an auction process for a significant portion of their solicitation where standard products are being procured. For the initial solicitation, Reliant recommends not less than a third of the unmet needs be acquired through an auction process. Furthermore, the Commission must recognize the importance of certainty and timeliness in the approval process of the competitive solicitation award contracts. By applying the recommendations included in this testimony, the Commission can facilitate a robust wholesale electricity market in Arizona that provides the benefits of competition the state's electricity consumers.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

APPENDIX A

STATEMENT OF QUALIFICATIONS

Curtis Kebler is Director, Asset Commercialization West Region for Reliant Resources, Inc. Reliant is a competitive provider of electricity and energy services to wholesale and retail customers in the U.S. and Western Europe. Mr. Kebler is responsible for representing Reliant's commercial interests on a broad range of technical and policy issues before various regulatory, legislative, and industry organizations in the Western U.S. He coordinates and implements the company's policies relating to restructured western region electricity markets and Regional Transmission Organizations, and oversees the performance of research and analysis and the development of studies and reports on western energy markets.

Mr. Kebler has more than 15 years experience in the energy industry and has broad knowledge of the structure, operation and performance of California's natural gas and electric power markets. From 1985 to 1997, Mr. Kebler worked for Southern California Edison Company in a variety of positions and was actively involved in the restructuring of California's natural gas industry and following that the restructuring of the state's electricity industry. From 1997 to 1999, Mr. Kebler worked for the California Power Exchange and was actively involved in all aspects of the start-up and initial operation of that corporation.

Mr. Kebler has a Bachelor of Science degree in nuclear engineering from the University of California. He is a member of the Board of Directors of the Independent Energy Producers Association and the Western Power Trading Forum and serves as Reliant's representative on numerous industry associations and committees.

APPENDIX B

Texas

Background

Restructuring legislation was enacted in 1999 in Texas to restructure the Texas electric industry allowing retail competition. The bill required retail competition to begin by January 2002. Under retail competition in Texas, default service for residential and small commercial consumers, ("Price to Beat" or "PTB" service) and Provider of Last Resort ("POLR") service are two separate services provided by separate Retail Electric Providers ("REPs"). PTB service is provided by the affiliate of the incumbent utility – the Affiliated Retail Electric Provider ("AREP") – for customers who elect PTB service or those customers who have had their service disconnected due to non-payment. The provider of POLR service is chosen via a competitive bid process or lottery. POLR service is intended primarily as a temporary service for those customers whose REP has exited the market.

Texas retail electricity Rates were frozen from 1999 to the end of 2001 or 3 years, and then a 6 percent reduction will be required for PTB residential and small commercial consumers. This will remain the "price to beat" remains for five years after retail competition begins and may be adjusted up to twice a year to reflect significant changes in the market price of natural gas and purchased energy to serve retail customers or until utilities lose 40 percent of their consumers to competition. The AREP can provide competitive service to residential and small commercial customers the earlier of January 2005 or when it loses 40 percent of residential and/or small commercial customers to other REPs.

Utilities were required to must unbundle into 3 separate categories — using separate companies or affiliate companies, the generation, the distribution and transmission, and the retail electric provider — using separate companies or affiliate companies. Power

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1 ~~generation companies are~~ Utilities will be **limited to owning and controlling not more**
2 **than 20 percent of installed generation capacity** ~~located in or capable of delivering to in~~
3 **their region (ERCOT).**

4 ~~The PUC adopted rules for the provider of last resort for when competition began in~~
5 ~~early 2002. The provider of last resort is required to provide to consumers no longer~~
6 ~~served by their provider of choice service at a fixed price. A competitive bidding~~
7 ~~process will designate the last resort providers for each consumer class. Bidding was~~
8 ~~completed by June 1, 2001.~~

9 **During 2001, generation affiliates of the utilities in Texas began the process of**
10 **auctioning part of their generating capacity as described below.** ~~The auction is~~
11 ~~designed to increase the pool of available power for new retail suppliers entering the~~
12 ~~market, prevent market power, and promote competition in electricity markets.~~

13 **Wholesale solicitation**

14 **As part of the restructuring of the Texas electricity market,** ~~generation affiliates of the~~
15 ~~utilities in Texas are required to acquire~~ **sell at auction entitlements to at least 15% of**
16 **their installed generation capacity until the AREP loses 40% of their residential and**
17 **small commercial consumers to competitive REPs or 2007, whichever occurs first.**
18 ~~requirement through auction. The purpose of the auction is to promote~~
19 ~~competitiveness in the wholesale market through increased availability of generation~~
20 ~~and increased liquidity. The AREP is not allowed to purchase capacity in this auction.~~
21 ~~The utility has the responsibility to procure the necessary capacity and energy,~~
22 ~~adhering to the rules established by ERCOT. Capacity in addition to the mandated~~
23 ~~capacity auction is procured through solicitation and secured by bilateral contracts.~~